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SUBJECT: GSP PROGRAM VITAL TO TURKISH EXPORTERS

¶1. (SBU) Summary. Turkish officials and businessmen have already begun expressing their concern about this year's review of Turkey's participation in the Generalized System of Preferences (GSP) Program. Turkey's GSP exports account for one-quarter of its total \$4.6 billion exports to the U.S. As Turkey's use of the GSP Program increases, so does market access for U.S. agricultural products. We are enjoying a period of considerably increased market openness in Turkey, with U.S. agricultural exports reaching a record \$1.5 billion in 2007. The GSP program is Turkey's only preferential trade arrangement with the U.S. It is vitally important to its exporters, who are mostly small and medium enterprises (SMEs), during this period of economic instability. Functioning SMEs and a strong rural economy in Turkey are important for U.S. policy objectives here. End Summary.

¶2. (SBU) Turkish officials and businessmen are concerned about this year's upcoming Generalized System of Preferences (GSP) Program review. The GSP Program is the only preferential trade arrangement under which Turkish companies can export duty-free goods to the U.S. Turkey's European Customs Union membership prevents them from entering into any bilateral preferential trade agreements with the U.S. It is a vitally important program to the Turkish economy and allows them to remain competitive in certain U.S. markets.

¶3. (SBU) As with previous years, Turkey's 2007 GSP exports, totaling \$1.1 billion, accounted for almost one quarter of its \$4.6 billion total exports to the U.S. Gold jewelry was again their main GSP export and totaled \$344 million. Other items included monumental or building stone, shotguns, fruit juice, copper wire, marble slabs, bulk olive oil for repackaging, pickled vegetables, aluminum alloy, and non-adhesive plates.

2007: A Banner Year for U.S. Ag Exports

¶4. (SBU) As Turkey's use of GSP increases, so does market access for U.S. agricultural products. We are enjoying a period of considerably increased market openness in Turkey, with U.S. agricultural exports reaching a record \$1.5 billion in 2007. Turkey was the tenth largest market for U.S. agricultural exports overall, and the second largest market for U.S. cotton exports after China. Cotton sales of \$767 million provided more than one-half of the total U.S. export value. In addition to cotton, Turkish imports of U.S. soymeal, feed ingredients, vegetable oils, animal fats, fruit and vegetable juices, tree nuts, and panel products (including plywood) all reached record highs in 2007.

Market Access: Important Successes and Continued Challenges

¶5. (SBU) 2007 saw several successes in easing market access problems for U.S. exports and persuading GOT officials to make

several regulatory changes that have benefited U.S. products. A protocol negotiated in July 2007 reopened the market for live cattle, which had been closed since 2003. We also convinced the GOT to modify a standard that had restricted imports of U.S. dried distillers grains (DDG's), a feedstock that is a byproduct of ethanol manufacture. By the end of 2007, Turkey was the fifth-largest purchaser of U.S. DDG's. We also successfully negotiated a change in the regulations that facilitated increased U.S. pet food exports to Turkey. Although Turkey has met all of its 1994 WTO obligations to lower tariffs, we continue to encourage the GOT to lower them further. Most are bound at very high levels, including those for grains, oilseeds, processed products, and wine and alcoholic beverages, which also face high excise taxes. Because a drought has reduced domestic supplies, tariffs on many foodstuffs have been lowered, at least for the time being.

¶6. (SBU) Turkey is also a major importer of U.S. biotech products, including almost \$1 billion annually in corn, cotton, soybeans and products. A proposed amended Biosafety Law, however, would disrupt U.S. exports and likely mimic EU restrictions. Because of this, we do not draw public attention to these imports.

WTO DSB Rice Case Resolved

¶7. (SBU) In 2006, the U.S. requested that the WTO Dispute Settlement Body establish a panel to review Turkey's protectionist measures against U.S. rice exports. In November 2007, the panel agreed that certain Turkish import measures were inconsistent with its WTO obligations. Since this panel decision, the U.S. and Turkey have been negotiating a schedule during which Turkey will comply

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with the panel's decision. Ironically, faced with domestic shortages, Turkey recently authorized its State Grain Board (TMO) to import up to 100,000 tons of rice duty-free.

Turkey Needs GSP

¶8. (SBU) Comment: The GSP Program is Turkey's only preferential trade program with the U.S. As economic conditions worsen and the dollar's value decreases, this program has become even more important for Turkey's economy, which is fueled by small and medium enterprises (SMEs) with very narrow profit margins. As Turkey continues to open its markets to U.S. agricultural products, we cannot use its previous reluctance to do so as a reason for reducing its participation in this program. Strong and functioning SMEs, in addition to a well-developed rural and agricultural economy, are important to U.S. policy goals in Turkey. End comment.

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